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ECONOMIC SECTION

INDONESIA: ENERGY HIGHLIGHTS
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Summary:

- The Ministry of Finance on December 29 issued guidelines for guarantees of power projects under the Government of Indonesia's (GOI) "crash program" to develop an additional 10,000 megawatts (MW) of electricity generation capacity by 2010.
- On January 16, state power company PLN signed power purchasing agreements (PPAs) for the construction of 10 power plants outside Java Island under the crash program. According to press reports, irregularities in the selection of several Chinese firms to build three power plants under the crash program could affect Chinese Government financing support for the projects.
- PLN announced on January 24 that to save costs it would import some diesel fuel directly, rather than purchase it through state-owned oil and gas company Pertamina.
- Oil and gas regulator BP Migas announced on January 22 that Indonesia would aim to increase oil output by 80,000 (bpd) in 2007 by raising production at 12 existing or new oilfield projects.
- Minister of Energy and Mineral Resources Purnomo Yusgiantoro told the press on on January 31 that ExxonMobil must provide the GOI with data that the company has collected on the Natuna D – Alpha block gas field.
- On January 15, Ministry of Energy and Mineral Resources (MEMR) Upstream Director R. Priyono announced GOI plans to develop a new production sharing contract that will allow extraction companies to forgo drilling if seismic surveys do not indicate prospective resources.
- In a development that caused analysts to question corporate governance practices in Indonesia, the Jakarta Stock Exchange (JSX) temporarily suspended trading in shares of state-owned gas company Perusahaan Gas Negara (PGN) on January 15 after the company announced significant delays in a major pipeline project.
- Minister Purnomo on January 15 announced the GOI would begin offering coal bed methane (CBM) development projects to investors through regular or direct offer tenders. Purnomo also announced on January 12 that the GOI would divert some Indonesian condensate exports for domestic use.
- A senior Pertamina official told the press on January 12 that it would ask the GOI to delay implementation of cuts in diesel fuel sulfur content.
- On January 9, Pertamina announced plans to double capital expenditures in 2007.
- This report uses an exchange rate of Rp 9,115/US$.

GOI Issues Guidelines for PLN Project Guarantees

The Ministry of Finance on December 29 issued regulation No.146/PMK.01/2006 providing guidelines on Government guarantees for coal fired power projects under the GOI's "crash program" to develop 10,000 MW of additional power generation capacity in Indonesia by 2010. Under the guidelines, the GOI will provide guarantees to creditors to ameliorate four kinds of risk: a change in GOI electricity price policy; a change in GOI electricity subsidy policy; a change in GOI coal supply price policy; and a GOI decision to delay or cancel power projects. To qualify for the guarantees, creditors must meet loan agreement obligations, including activation and disbursement schedules. They must also complete projects on schedule and in accordance with technical specifications.

PLN Signs PPAs for Coal Fired Power Plants

On January 16, PLN signed Power Purchase Agreements (PPAs) for the construction of 10 small, coal-fired power plants outside Java Island under the GOI's crash program. The 10 plants, listed in Table 1 below, are expected to begin operations in 2009 and 2010. All of the plants will likely rely on Chinese coal-fired technology, reflecting the GOI's shift from reliance on fuel oil to coal-fired power generation.

Table 1 : PPAs Signed For Coal-Fired Power Plants Under GOI Crash Program

Project	Location	Contractor
Lakatong (2x45 MW)	South Sulawesi	Kasai Listrindo
Gorontalo (2x6 MW)	South Sulawesi	Gorontalo Energi
Tawaeli (2x13.5 MW)	Central Sulawesi Pusaka	Palu Jaya
Sampit (2x6 MW)	West Kalimantan	Karya Putra Powerin
Tanah Grogot (2x6 MW)	East Kalimantan	Mahajaya Arya Satya
Ketapang (2x6 MW)	West Kalimantan	Ketapang Power
Banjarsari (2x100 MW)	South Sumatra	Bukit Pembangkit
Belitung (2x6 MW)	Bangka Belitung	Belitung Arya Power
Tj. Pinang (2x10 MW)	Riau Island	Medco-Menamas-Barata
Jayapura (2x10 MW)	Papua	Menamas-Permata-PLN

Source: Petromindo

Irregularities Reported in China-Linked Power Tenders

According to press reports, representatives from Bank of China, the China Export Import Bank, China's Chamber of Commerce and Industry, and Chinese commercial banks informed PLN on January 22 that the Government of China would not provide support to the planned power projects involving three Chinese state-owned firms: equipment and technology import and export company China National Technical Import and Export Corp (CNTIC), equipment manufacturing and engineering group Sinomach, and construction and engineering corporation Chengda. Sinomach or Chengda reportedly unfairly blocked rival Chinese bidders from competing for projects, and violated China's export guarantee rules. The decision will likely impact the development of three medium sized power plant projects:

-- A 600 MW Suralaya power plant project in Banten Province. The project is a joint venture between CNTIC and PLN, and would supply electricity at Rp 378.9(4.2 cents) per kilowatt.

-- A 300 – 400 MW Indramayu coal-fired power plant in West Java, a joint project of Sinomach, China National Electric Equipment (CNEEC) and PT Penda Adi Samudra. The project would supply electricity at Rp 403.6 (4.4 cents) per kilowatt.

-- A 300-400 MW Labuhan coal-fired power plant in Banten, a joint project of Chengda and PT Truba Jurong. The project would supply electricity at Rp 386.2 (4.2 cents) per kilowatt.

PLN to Import Diesel Directly

PLN Director for Power Generation and Prime Energy Ali Herman Ibrahim announced on January 24 that PLN would import one million kiloliters of high-speed diesel fuel directly for the first time, rather than obtain the fuel through Pertamina. At present, PLN purchases diesel from Pertamina at an average cost of Rp 5,202 (US$ 0.57) per liter from Pertamina, while the average cost in international fuel markets is reportedly Rp 5,190. By importing the diesel directly, PLN claims it could save Rp 117.2 billion ($12.9 million). PLN Chief Commissioner Alhilal Hamdi told Parliamentary Commission VII on January 29 that 12 local and foreign companies have expressed interest in supplying the diesel, including Petronas, Shell, and private trading company PT AKR Corporindo. In addition, Hamdi noted that several banks and financial institutions have expressed interest in providing financing for the fuel purchase, worth some Rp 5 trillion ($548.5 million).

Meanwhile, Pertamina Fuel Division Head Djaelani Soetomo told the press on January 29 that Pertamina would bid on the PLN tender, provided PLN pays its outstanding debts to Pertamina. (Note: Under the GOI fuel and electricity subsidy programs, PLN, Pertamina and the Ministry of Finance frequently run arrears to each another that are netted out and settled on an annual basis. End Note.) Djaelani also claimed that Pertamina could provide PLN with the best tender price. Pertamina's president Ari H. Soemarno said on January 26 that the Pertamina was prepared to provide a special discounted price to PLN and, if necessary, to sign a special contract.

Indonesia to Increase Oil Output by 80,000 Barrels in 2007

BP Migas Chairman Kardaya Warnika announced on January 22 that Indonesia plans to increase its oil output by 80,000 bpd in 2007 to reach the GOI's target output of 1.05 million bpd. According to Warnika, 12 existing and new oil projects will supply the additional output, including four existing fields operated by ConocoPhillips, Chevron, Pertamina, and a joint venture. Warnika said that ConocoPhillips would increase its offshore fields' output by 15,000 bpd; Chevron would add 25,000 bpd to its output from fields in the northern Duri Block in Riau; Pertamina would increase output at the Pondok

Tengah field in Bekasi, West Java by 17,000 bpd; and the Bumi Siak Pusako/Pertamina would add 5,000 bpd from the Bene Bekasap field in Riau.

BP Migas also expects a number of new projects to begin producing oil this year: Amerada Hess will produce 7,500 bpd from the Ujung Pangkah (Madura) field; Total E&P Indonesia will produce 4,680 bpd from the Sisi and Nubi fields (East Kalimantan); PT Energi Mega Persada will produce 2,229 bpd from the Sepanjang Island field (East Java); Chevron will produce 1,098 bpd from the Telisa Kotabatak field (Central Sumatra) and 177 bpd from the Seturian field(East Kalimantan); Australian firm Santos will produce 1,027 bpd from the Oyong field (East Java); Petrochina Tuban will produce 281 bpd from the Gondang field (East Java); Petrochina Jabung will produce 171 bpd from the West Betara field (Jambi).

Separately, Vice President Jusuf Kalla on January 15 instructed ministries to remove regulations that hamper oil production so that Indonesia can meet its target of 1.3 million bpd of crude oil production by 2009. The Ministry of Energy and Mineral Resources has not yet released a detailed plan for meeting this production target.

Dueling GOI Press Statements on Natuna D-Alpha

Minister of Energy and Mineral Resources Purnomo Yusgiantoro on January 30 said that ExxonMobil must provide the GOI with data the company has collected on the Natuna D – Alpha block gas field. On January 25, Yusgiantoro told the media the GOI's initial contract with ExxonMobil had expired and that further development of the field would be open to all bidders. These remarks were in contrast to BP MIGAS Chairman Kardaya Warnika's January 22 statement that ExxonMobil has until June to submit a new contract proposal for further development of the block before the GOI could consider other proposals. ExxonMobil Indonesia Vice President for External Relations Maman Budiman said on January 26 that ExxonMobil would not bring the matter before international arbitration, even though the GOI claims to have terminated early Exxon's existing contract to develop the block. The Natuna D – Alpha block contains an estimated 222 trillion cubic feet (TCF) of gas high in sulfur dioxide content, of which 46 TCF is believed to be commercially recoverable.

Pertamina President Director Ari S. Soemarno on January 25 insisted that Pertamina own at least a 50 percent share in the block's further development, since Pertamina had already invested a considerable amount in the block to date. However, Purnomo on January 25 noted that Pertamina does not have first right of refusal or any other priority right related to the further development of the block.

GOI Frees Contractors from Drilling Obligation

On January 15, MEMR Upstream Director R. Priyono announced GOI plans for a new form of production sharing contract (PSC) that would allow oil and gas companies to forgo drilling if seismic surveys do not indicate prospective resources. Priyono said the new contractual terms should reduce contractors' risks in exploring frontier areas. He added that the GOI would offer these terms to contractors interested in 30 new blocks that the MEMR plans to open for bids in mid-2007. Under the existing GOI contracts, oil and gas investors have six years to carry out exploration activities (from seismic surveys to exploration drillings). They also must establish bank accounts to hold performance deposits that the GOI has the right to confiscate should they not meet drilling obligations. Many contractors have voiced complaints about the drilling obligations, arguing that they should not have to drill in areas where seismic surveys do not indicate the presence of significant hydrocarbon resources.

Under the new PSC, companies will have between two and three years to carry out seismic surveys of frontier areas. If surveys do not indicate significant commercially viable resources, then companies can return the concessions can be returned to the GOI without penalty. Share splits and signing bonuses in the new contracts will remain the same as those in the previous contracts.

JSX Suspends Trading of PGN Shares

The Jakarta Stock Exchange (JSX) on January 15 temporarily suspended trading in shares of state-owned gas company Perusahaan Gas Negara Tbk (PGN). PGN's shares plunged more than one-fifth on January 12, wiping out $1 billion of the firm's market capitalization. This followed a PGN January 11 press release announcing significant delays in its development of its South Sumatra – West Java pipeline project. JSX lifted the trading suspension on January 16. Since then, PGN shares have rebounded to as much as 90 percent of their value in early January. PGN President Director Sutikno said that based on PGN's agreement with Pertamina, the company should have delivered gas to Pertamina beginning in November 2006. However, due to delays, PGN has delayed scheduled deliveries to March 2007. According to many analysts, the announcement of significant project delays at such a late date has raised concerns among many international investors about the quality of corporate governance in Indonesia.

GOI Offers Alternative Energy Development

Minister of Energy and Mineral Resources Purnomo Yusgiantoro announced on January 15 that the GOI would begin offering coal bed methane (CBM) development projects to investors through regular or direct offer tenders. Purnomo explained that GOI would give first priority to develop CBM projects to existing holders of mine concessions and work agreements. Estimates indicate that Indonesia's CBM potential is as much as 453.3 trillion cubic feet (TFC), with most located in South Sumatra, Central Sumatra, Kalimantan, and Sulawesi.

MEMR Director for Upstream Business Development R. Priyono told the press he hopes that the GOI could tender CBM working areas in Kalimantan and South Sumatra in March 2007 through direct offers. He noted CBM and oil and gas projects have different business models because CBM projects usually must receive approval from local government authorities. He added that the GOI would refer to CBM development in other countries to determine appropriate ownership splits.

Government Cuts Condensate Exports

Minister of Energy and Mineral Resources Purnomo Yusgiantoro said on January 12 that the GOI would divert some Indonesian condensate exports for domestic use, especially those produced by Pertamina refineries and PT Trans Pacific Petrochemical Indonesia (TPPI). Purnomo said that the GOI was still calculating how much condensate to divert, but emphasized that any condensates diverted for domestic use would be sold at international prices. According to Purnomo, the GOI would not need to provide subsidies to Pertamina or TPPI, since they would save on transportation costs by selling locally.

Pertamina Asks Delay in New Diesel Sulfur Levels

Pertamina Fuel Division Head Djaelani Sutomo said on January 12 that the company would ask the GOI to delay implementation of cuts in diesel sulfur content so that Pertamina had time to prepare its refineries to meet the new requirements. The GOI in March 2006 informed Pertamina and other companies that they had one year to cut diesel sulfur content to 0.35 percent from 0.5 percent to meet EURO 2 standards, established in the year 2000. Automobile importers have expressed concerns about Indonesia's ability to supply diesel and other fuels that meet the EURO 2 standard at petrol stations across the country.

Pertamina to Double 2007 Capex

The Ministry of State-Owned Enterprise, acting in its role as Pertamina's shareholder, agreed on January 9 to Pertamina's plan to expand capital expenditures to Rp 14.6 trillion ($1.6 billion) in 2007, more than doubled the Rp 6.3 trillion ($691.2 million) in 2006. Pertamina says it has secured $500 million worth of loans from a syndication of local and international banks to partly finance the new capital expenditures. Finance Director Frederick Siahaan said Pertamina would seek other lending facilities or issue bonds to finance the remaining capital expenditures. He added that the majority of the new capital expenditure would be used to further develop the Cepu and Pondok Tengah oil blocks. Pertamina is targeting total revenues of about Rp 300 trillion ($32.9 billion) for 2007, down from Rp 355 trillion ($38.9 billion) in 2006. Meanwhile, the President Director of upstream subsidiary Pertamina EP, Kun Kurnaely, told the press the company would boost drilling activities in 2007 to at least 23 exploration wells and 145 development wells, compared to 6 exploration wells and 96 development wells in 2006. Pertamina EP is also aiming to increase crude oil production to 118,000 bpd from 102,000 bpd in 2006; and gas production to 1,319 million cubic square feet per day (MMSCFD) from 944

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